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IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1940.

No. 984

EDGAR C. GUTHARD, ACTIVATED SLUDGE, LIMITED, and ACTIVATED SLUDGE, INC.,
Plaintiffs-Respondents,

vs.

THE SANITARY DISTRICT OF CHICAGO,
Defendant-Petitioner.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE SEVENTH CIRCUIT.

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TABLE OF CONTENTS.

PAGE

Petition for Writ of Certiorari
- Statement of the Matters Involved..... 1
- Jurisdiction of This Court..... 11
- The Questions Presented..... 11
- Reasons for Allowance of Writ..... 13

Brief in Support of Petition for Writ..... 17
- Opinions of the Courts Below..... 17
- Jurisdiction of This Court..... 18
- Statement of the Case..... 18
- Specification of Errors..... 18
- Argument 19

Table of Cases Cited.

American Circular Loom Co. v. Wilson, 198 Mass. 182, 84 N. E. 133..... 26

Crown Dye & Tool Co. v. Nye Tool & Machine Works, 261 U. S. 24.....15, 30-31

Keystone Driller Co. v. The Byers Machine Co., 71 F. (2d) 1000 (C. C. A. 6); cert. denied, 293 U. S. 572; rev. 4 F. Supp. 159, 160.....13, 19-26

Keystone Driller Co. v. General Excavator Co., 290 U. S. 240; affirming 62 F. (2d) 48; rehearing denied 64 F. (2d) 39.....3, 13, 19-26

Trice v. Comstock, 121 Fed. 620 (C. C. A. 8).....14, 26-30

Statutes Cited.

Section 240 (a) of the Judicial Code as amended by Act of Feb. 13, 1925 c. 229 (28 U. S. C. A. Sec. 347) 11, 18

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THE SANITARY DISTRICT OF CHICAGO,
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PETITION FOR WRIT OF CERTIORARI.

To the Honorable the Chief Justice and the Associate Justices of the Supreme Court of the United States:

STATEMENT OF THE MATTERS INVOLVED.

This litigation is a subject-matter of great public importance. The activated sludge process and apparatus involved in this suit for infringement of patents have been used in disposing of a large amount of the sewage of the City of Chicago and its environs since litigation arose resulting in this Court restricting the use of the waters of Lake Michigan for that purpose.

All except one of the six patents asserted by the original (and present) plaintiffs were held valid and infringed by the District Court (8 F. Supp. 329) and the Court of Appeals for the Seventh Circuit (90 F. (2d) 727), and

an interlocutory decree for an accounting was ordered pursuant thereto. This Court denied certiorari (302 U. S. 736).

There have been no proceedings on the accounting under this decree.

The important question here involves the lately discovered fraudulent concealment and suppression of evidence relating to a defense available to petitioner had the facts been known at the time of trial.

On October 21, 1939, petitioner filed a motion in the Circuit Court of Appeals for leave to present to the District Court a Petition to vacate and reopen the interlocutory decree and dismiss the suit:

(a) Because of the fraud of its former Chief Engineer, A. W. Dilling, in acquiring the rights under the patents asserted shortly after he left its employ, and in instigating this litigation and carrying it on in collaboration with others;

(b) Because of the fraud of respondents (plaintiffs below) in suppressing and concealing evidence with respect to this fraud and the title to the patents asserted.

This leave to present the Petition was granted by the Circuit Courts of Appeals (R. I—435), but the District Court denied leave to file the Petition without hearing any evidence (R. II—885) and its denial was affirmed by the Court of Appeals (R. II—920).

The facts concerning the fraud, concealment and the suppression of evidence were first discovered by petitioner, shortly prior to the presentation of its Petition in the Court of Appeals, from the disclosures in a suit brought by Dilling in the United States District Court for the Northern District of Illinois charging plaintiffs and those associated with them with fraud committed in

an attempt to deprive him of what he claimed was his interest in the title to and recoveries under the patents asserted in the present suit.

Petitioner is here seeking an order of this Court requiring the District Court to take and receive evidence so that petitioner may show the full facts with respect to the fraud, sullied conduct, suppression and concealment of evidence of a character strongly condemned by this Court in the case of *Keystone Driller Co.* v. *General Excavator Co.*, 290 U. S. 240.

The evidence of the fraud and sullied conduct of Dilling and respondents, so successfully concealed from petitioner and suppressed until recently, reveals that petitioner's former Chief Engineer, shortly after he left its employment, went to England and secured an arrangement for the acquirement of such an interest in the patents asserted in the four states of Illinois, Indiana, Wisconsin and Michigan, as to enable him and those he then interested with him, including the original (and present) plaintiffs, to institute this suit. Dilling and his associates concealed and suppressed the real facts with respect to Dilling's reprehensible conduct, his interest in the title and in any recoveries that might be had from your petitioner.

The Petition to vacate the interlocutory decree primarily raises important questions regarding the standard of conduct required of suitors and their counsel in federal courts of equity. The unclean hands of respondents are of two kinds: (1) their conduct in suppressing evidence; and (2) their relations with Dilling, former Chief Engineer of petitioner, who stirred up the filing of this litigation. The evidence to support both of these points was only recently discovered by petitioner. The ultimate ques-

tion is whether or not the lower courts erred in denying the petitioner leave to file its Petition to vacate the interlocutory decree and, for a determination of that question, the perusal of said Petition is invited (R. I—3-102).

The Petition which the petitioner seeks to file and the balance of the Record herein disclose an amazing series of events. The material allegations of said Petition are not controverted by anything appearing in the Record. The District Court, in passing upon the motion for leave to file, stated that it considered the matter "as if the petition had been filed and its sufficiency were attacked by motion to strike or dismiss" (R. II—885). No answer to said Petition was filed by respondents, no trial took place, no witnesses testified and no evidence was introduced other than the excerpts from certain records which were submitted by each of the parties, which excerpts together with said Petition constitute the Record herein.

The petitioner is a municipal corporation serving a population of about 4,000,000 persons and having as its principal function the efficient and sanitary disposition of the sewage produced in its territory. It is essentially an engineering corporation and its Chief Engineer is a statutory public officer holding an important position (R. I—4). Albert W. Dilling, a civil engineer and attorney-at-law, was Chief Engineer of the Sanitary District from December 16, 1920 to July 21, 1922 and remained as consulting engineer until November 15, 1922 (R. I—4). When Dilling commenced his employment, he knew nothing about sewage disposal, the patents in suit, the plans and problems of petitioner, or the possible infringement of said patents by the plants being and about to be constructed by petitioner (R. I—6).

Dilling's term in office was a crucial one for during that period suits were instituted in this Court by certain

States on the Great Lakes against the petitioner and the State of Illinois to enjoin the diversion of any water from Lake Michigan and it became clear that petitioner might be required to construct vast works to dispose of sewage artificially (R. I—7). It became Dilling's responsibility as Chief Engineer to devise or select an artificial method of sewage disposal, and to select one which would not be the subject of patent or other litigation. Dilling, as Chief Engineer, supervised the construction by petitioner of two experimental plants using the activated sludge method and he placed one into operation (R. I—7-8, 113-264). Dilling participated in the consideration of the method of sewage disposal which should be adopted by petitioner for its large North Side plant and concurred in the recommendation of a commission of engineers that the activated sludge method should be used (R. I—7, 258-261). During his tenure in office Dilling's department commenced the preparation of the plans and specifications for the North Side activated sludge plant which, together with the two experimental plants which Dilling helped construct, were the only plants found herein to infringe the patents in suit (R. I—8, 262).

The patents in suit and their importance were brought to Dilling's attention when one of the engineers in his department wrote him "that the matter is of sufficient importance and might be the cause of a claim of sufficient size to warrant considerable detailed attention on our part" (R. I—6, 7, 270). As Chief Engineer, Dilling furnished Activated Sludge, Limited, the then English owners of the patents in suit, at its request, with an important report of petitioner respecting certain of its sewage disposal problems (R. I—266).

The result was that by virtue of his employment in the important and trusted position of Chief Engineer, Dill-

ing acquired information which he never would have otherwise acquired relating to the plans of petitioner to construct huge sewage disposal plants which might infringe the patents owned by Activated Sludge, Limited.

It was not until late in 1938 that petitioner discovered for the first time, and the subsequent investigation which petitioner made revealed, that Dilling, shortly after he left petitioner's employment, went to England where he made an agreement with the owners of the patents in suit to acquire an interest in the patents and to form an enterprise for the exploitation of the patents within the States of Illinois, Indiana, Wisconsin and Michigan, the immediate object of the enterprise being to assert the patents against the petitioner (R. I—8, 80-81). Upon his return to Chicago, Dilling formed a syndicate with a patent attorney, Albert G. McCaleb (a member of the firm which has represented respondents throughout this litigation) and two financiers, Franklin Mayo and Edgar C. Guthard, to furnish the legal work and money for the adventure (R. I—8-9, 81; II—634). Guthard went to England where he obtained a so-called exclusive license agreement which, in legal effect, constituted an assignment of the patents for the States of Illinois, Indiana, Wisconsin and Michigan (R. I—11). In order to succeed in their venture, the syndicate was confronted with the problem of preparing documents which would legally protect their respective interests, thereby requiring the written recognition of Dilling's interest, and at the same time with the necessity of preparing documents establishing their right to sue which would forever conceal Dilling's interest and role in initiating the enterprise and suit (R. I—9-10, 14). The anxiety to conceal Dilling, in the interest of the success of their enterprise, caused the co-adventurers to evolve the plan and scheme of having the exclusive license

agreement run to Guthard as an individual and not as trustee despite the fact that the original agreement between the four co-adventurers provided that Guthard would hold all rights acquired by him as trustee (R. I—10), and despite the fact that another concealed agreement made by Activated Sludge, Ltd. and three of the co-adventurers contemporaneously with the license agreement acknowledged Guthard's trust capacity (R. I—39). The license agreement was to serve as the muniment of title which would establish respondents' right to sue and yet conceal Dilling.

In order to protect their respective legal interests, the four members of the syndicate (Dilling, Guthard, Mayo and McCaleb) created a Massachusetts Trust to which they assigned all their right, title and interest, legal and equitable, in the so-called license agreement (R. I—14, 15, 47). This means that the Massachusetts Trust, called Activated Sludge Processes of America, should have filed this suit. However, if that had been done, Dilling's relation to the suit would have been revealed by virtue of the fact that he was a one-fourth owner of the beneficial certificates issued by the Massachusetts Trust (R. I—50). Consequently, all knowledge of the Massachusetts Trust and the assignment of the patents to it were carefully suppressed and concealed from the petitioner throughout this litigation (R. I—15).

On August 9, 1924, the co-adventurers learned that Clyde L. Day, then attorney for the petitioner, was in England and might possibly approach Activated Sludge, Limited. The co-adventurers feared that some one at Activated Sludge, Limited, might mention Dilling's name in connection with the enterprise. Accordingly, Mr. McCaleb immediately wrote Activated Sludge, Limited, that Mr. Day should not be "given any inkling that Mr.

Dilling is in any way connected with or interested in the matter of establishing your patents in this country" and "we are being extremely careful to do and say nothing which will in any way hamper or embarrass us in our campaign against the Sanitary District" (Respondents' brief filed below, Nov. 24, 1939, p. 8; R. I—16).

In furtherance of their plan, the respondents caused their attorneys, the same attorneys who have represented the respondents throughout this litigation, to send petitioner formal notice of infringement which described Guthard as the exclusive licensee and Activated Sludge, Limited, as the owner of the patents (R. I—16-20). One month later suit was filed by Activated Sludge, Limited, as alleged owner of the patents, and Guthard, as exclusive licensee. The assignment of the patent rights for the territory to the Massachusetts Trust, executed by Guthard and his associates less than two months prior thereto, was concealed (R. I—18-19).

The Petition describes, and we shall not repeat here, the subsequent events under which respondents sought to eliminate Dilling from the enterprise and ineffectually endeavored to convey legal title in the patents to Activated Sludge, Inc., a Delaware corporation (R. I—24-31). On January 25, 1928 Activated Sludge, Inc. filed a verified "original bill in the nature of a supplemental bill" which again alleged a false chain of title in an effort to conceal Dilling's relation to the enterprise (R. I—19-20).

The result was that when the trial took place in 1933 respondents had effectively concealed and suppressed from petitioner any inkling of the fact that its former Chief Engineer was responsible for the filing of this suit. During the trial petitioner's counsel asked certain questions of two witnesses, Mayo and Guthard (the financial backers of Dilling's enterprise), and had they answered

those questions truthfully, the disclosure of Dilling's relation to the enterprise would have followed. The witnesses, however, testified falsely and the concealment of Dilling was perfected (R. I—22-23).

The active concealment and suppression of Dilling was carried over to the suit for infringement brought by the Activated Sludge, Inc. against the City of Milwaukee and in that case respondents' counsel went so far as to misquote a document not in the record in order to further the suppression of Dilling (R. I—109-111).

Petitioner's counsel defended this suit with all reasonable diligence and they had no reason to suspect that respondents were fraudulently suppressing evidence of potential defenses of unclean hands and lack of title which would have been available to petitioner had it known the facts concerning Dilling's relation to the enterprise. Petitioner's failure to make an earlier discovery of respondents' unclean hands was due to respondents' fraudulent suppression of the evidence relating to their unclean hands (R. I—35-36).

Petitioner would probably never have learned the truth about Dilling and his relation to this suit had not Dilling and his associates become involved in a dispute which resulted in Dilling's filing suit against his former associates (R. I—23-31). From the disclosures made in said Dilling suit, petitioner learned for the first time that its former Chief Engineer was responsible for the acquisition of the patents in suit by respondents and the instigation of this litigation, that Dilling himself had a substantial interest in the patents and that Dilling claimed in his suit that he had been fraudulently deprived of such interest by the respondents herein, their attorneys and associates (R. I—24, 25).

For the first time petitioner learned from the said

Dilling suit about all of the documents which had been carefully concealed from the petitioner and courts throughout this proceeding (R. I—24-25). Petitioner further learned from the Dilling case that when Mayo and Guthard were confronted by Dilling's attorney with their testimony in this case, they were forced to admit that they had not told the truth in this case regarding the ownership of and their interest in the patents (R. I—31-33).

The first knowledge acquired by petitioner of the Dilling suit occurred when Dilling served notice on defendant on August 4, 1938, that he claimed to have an interest in the patents superior to that of Activated Sludge, Inc. (R. I—24). As soon as this notice was obtained petitioner made a prompt and thorough investigation of Dilling's pending suit (R. I—24). The Petition sought to be filed narrates the diligent efforts of petitioner's counsel to ferret out the facts and also sets forth the obstructive tactics employed by respondents' counsel in endeavoring to continue the suppression of vital evidence (R. I—24-35). The legal problems were varied and intricate and required exhaustive research. Almost every day new facts and new approaches were discovered. As soon as the newly discovered facts were gathered and interpreted in the light of the law, a complete mosaic was pieced together of the fraud perpetrated upon the petitioner and courts. The necessary documents were prepared with due speed and the procedure to set aside the decree was put into motion by the filing of petitioner's motion in the Circuit Court of Appeals on October 21, 1939 for leave to present its Petition to the District Court.

JURISDICTION OF THIS COURT TO REVIEW THE DECREE IN QUESTION.

The jurisdiction of this court is invoked under Section 240 (a) of the Judicial Code as amended by the Act of February 13, 1925, c. 229 (28 U. S. C. A. Sec. 347). The decree which the petitioner seeks to have reviewed was entered by the Court of Appeals of the Seventh Circuit on March 27, 1941 (R. II—920).

THE QUESTIONS PRESENTED.

1. Whether petitioner is entitled to an order of this Court requiring the District Court, on the basis of the allegations in the Petition sought to be filed, to take and receive evidence permitting it to show the full facts with respect to the fraud, sullied conduct, suppression and concealment of evidence?

2. Should the respondents in this case be entitled to an accounting in view of their sullied conduct in suppressing and concealing evidence from the petitioner and courts? This question was presented to but not discussed by the lower courts in their opinions.

3. If the respondents were guilty of reprehensible conduct in suppressing and concealing evidence from the petitioner and courts, should such conduct bar the respondents from relief assuming that the evidence sought to be suppressed by respondents may have been immaterial and might not have affected the result of the case? This question was presented to but not discussed by the lower courts in their opinions.

4. In view of the allegations in the Petition sought to be filed by the petitioner setting forth the reprehensible

conduct of respondents in suppressing and concealing evidence, was it not an abuse of judicial discretion for the lower courts to deny leave to the petitioner to file said Petition? This question was presented to but not discussed by the lower courts in their opinions.

5. Should this suit be dismissed on account of the unclean hands of respondents arising from the fact that this suit was instigated and prosecuted through the action of A. W. Dilling, former Chief Engineer of the petitioner, who thereby frustrated one of the purposes of his former employment, namely, the construction of sewage disposal plants free of patent litigation?

6. Can the equitable owner of patents bring suit for their infringement? Was legal title to the patents in suit vested, prior to the filing of this suit and when the interlocutory decree was entered, in a Massachusetts Trust called Activated Sludge Processes of America or in Activated Sludge, Inc.? Should the Petition have been filed and evidence heard thereon in order to determine the soundness of the attack made by the Petition on the finding in the interlocutory decree that Activated Sludge, Inc. owned the legal title to the patents in suit?

7. Can the respondents be permitted to charge the petitioner with notice of the evidence on which its Petition is predicated and with negligence in failing to make an earlier discovery of such evidence, especially in view of the fact that the petitioner was prevented from discovering such evidence by the respondents' active suppression of such evidence?

8. Are the respondents entitled to charge the petitioner with negligence in failing to make an earlier discovery of the evidence on which its Petition is predicated or in failing to make an earlier presentation of its Petition to the court in view of the fact that the Record

fails to disclose that the respondents were put to any disadvantage as a result of the delay?

9. Does the Petition sought to be filed by the petitioner and the Record herein disclose that the petitioner was guilty of negligence in failing to make an earlier discovery of such evidence or in failing to present its Petition to the Court with due speed?

10. Does the Petition sought to be filed by petitioner comply with the rules as to the form of bills of review, petitions for rehearing and similar petitions?

REASONS FOR THE ALLOWANCE OF THE WRIT.

1. The decision of the Circuit Court of Appeals in this case is in conflict with the decisions of the Court of Appeals for the Sixth Circuit and of this Court. In a series of cases filed by Keystone Driller Company (*Keystone Driller Co.* v. *The Byers Machine Co.*, 71 F. (2d) 1000; certiorari denied, 293 U. S. 572; reversing 4 F. Supp. 159, 160; *Keystone Driller Co.* v. *General Excavator Co.*, 290 U. S. 240, 244, 246; affirming 62 F. (2d) 48, 50; rehearing denied 64 F. (2d) 39, 40), it was decided that the federal courts of equity are closed to granting affirmative relief to all suitors who attempt to suppress or conceal evidence relating to defenses; and that it made no difference that such evidence sought to be suppressed or concealed by plaintiffs, if it had been known to and introduced by the defendants during the trial, might not have affected the result. The suitor's misconduct in itself barred relief.

The Circuit Court of Appeals in its "opinion" stated that the opinion of the District Court "decided every question presented here in accordance with our views" (R.

II—920). This question concerning the applicability to this case of the *Keystone Driller Company* cases was presented by petitioner to the Circuit Court of Appeals as a "primarily controlling point" but it was not decided or even discussed in the opinion of the District Court. The District Court's opinion assumes that if the evidence sought to be suppressed by respondents would not have affected the result had it been introduced during the trial, evidence of respondents' suppression of such evidence is immaterial (R. II—899).

It is important that this Court, by reversing the Seventh Circuit in the instant case, make it unmistakably clear that the principle announced in the *Keystone Driller Co.* cases is a fundamental canon of equity jurisprudence in federal courts, exacting of litigants the high standard of conduct established in those cases.

2. The decision of the Circuit Court of Appeals in this case is in conflict with the decision of the Court of Appeals for the Eighth Circuit in *Trice* v. *Comstock*, 121 Fed. 620. In that case it was held that the duty of an employee to be loyal and faithful to his employer "is as sacred and inviolable after as before the expiration" of his employment (p. 625) so that an employee cannot, after his employment ceases, take advantage of information acquired by him during his employment to prevent his former employer from accomplishing certain of the purposes of their former relationship. While this decision of the Court of Appeals for the Eighth Circuit was principally relied upon by petitioner in order to sustain its argument on this point, neither the District Court nor the Circuit Court of Appeals refer to this leading case in their opinions and those opinions are in conflict with that decision in holding that Dilling, after his employment

ceased, was not barred from instigating this suit by organizing and promoting an adventure for that purpose, and as a result of which this suit was actually begun (R. II—897-9).

3. The decision of the Circuit Court of Appeals in this case is in conflict with the decisions of this Court holding that the plaintiff in a patent infringement suit must own the legal title to the patents in suit and that it is not sufficient for the plaintiff to hold merely an equitable title (*Crown Dye & Tool Co.* v. *Nye Tool and Machine Works,* 261 U. S. 24, 40). The District Court's opinion disposes of our contention that Activated Sludge, Inc. lacked legal title by stating that, in equity, Activated Sludge, Inc. would be deemed to hold sufficient title to maintain this suit (R. II—891-2). This is in conflict with the decision in the *Crown Dye & Tool Company case* that only the legal owner of the patents in suit may recover in a patent infringement case.

Wherefore, your petitioner prays that the Writ of Certiorari be issued under the seal of this Court, directed to the United States Circuit Court of Appeals for the Seventh Circuit, commanding that court to certify and send to this Court on a day to be designated, a full and complete transcript of the record and of all proceedings in the Circuit Court of Appeals had in this cause, to the end that this cause may be reviewed and determined by this Court; that the judgment of the Circuit Court of Appeals be reversed and that the order entered by the District Court on July 5, 1940, denying your petitioner leave to file its certain Petition to set aside the interlocutory decree entered herein, be set aside; that the District Court be ordered to file said Petition and proceed

thereon; and that your petitioner be granted such other and further relief as may be proper.

Respectfully submitted,

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